Report of the

MAYOR'S COMMISSION ON

MORTGAGE LENDING PRACTICES

May 2009

Background

In October 2008 Mayor Jim Newberry appointed the Commission on Mortgage Lending Practices, with the charge to review the findings on mortgage lending practices reported by the Lexington-Fayette Urban County Human Rights Commission, and to propose appropriate redress. Entitled, "Regardless of Income, African-Americans in Lexington Remain at Risk of Receiving High-Cost Home Mortgage Loans" the newly released report indicated the following needs to:

- Look at the way we enforce our fair housing and fair lending laws to make sure we are using the resources available to us to protect consumers and minority neighborhoods.
- Require greater enforcement and oversight by state and federal regulatory agencies to protect unsuspecting consumers.
- Conduct more research locally into the effects of the lending patterns identified.
- Examine our financial literacy programs and make sure that they are adequate and accessible to the population that needs them.
- Encourage ethical mortgage lenders to step forward and provide financial services to the broader community.

Per the recommendation of the Human Rights Commission Executive Director, William Wharton, the Mayor's Commission on Mortgage Lending Practices was charged to focus on the latter two of the indicated needs.

In discharge of the assignment, the Mayor's Commission on Mortgage Lending Practices (The Commission) met on November 20 and December 18, 2008, and on January 22 and March 17, 2009 to consider ways of addressing issues around financial literacy programs and financial services to the broader community.

Ground Work

Mayor Newberry created a robust membership roster for The Commission. The backgrounds of the members enabled them to provide expertise from a variety of both for-profit and civic or non-profit organizations. They shared a wealth of demographic information that brought the group to a common understanding of some critical realities. For example, data that the members provided on (1) per capita income, (2) poverty levels, and (3) home ownership created for The Commission a backdrop against which to ground some of its thinking, illustrated in the three point summaries below.

- A snapshot of the year 2007 revealed significant disparity by ethnic group in the per capita income (PCI) in Kentucky in general, and in Fayette County in particular.

Group	2007 PCI
Kentucky	$21,618
Whites	22,323
African Americans	15,287
Native Americans	17,599
Hispanics	14,238
Fayette County	
Whites	$30,377
African Americans	16,088

- The percentage of the population with income below the poverty level in 2007 revealed further disparities:

Kentucky statewide	17%
Whites	15%
African Americans	30%

- The average percentage of residents who own a home in Kentucky is 70.83%. This percentage drops sharply among underserved minorities compared to whites:

Whites	73.67%
African Americans	43.16%
Hispanics	38%
Native Americans	58%

The disparities among ethnic groups in these three areas are found in other areas as well, one example being business ownership. The Human Rights Commission found that Lexington ranked 40th in the country and first in the state of Kentucky in disparities between loans to low and moderate-income borrowers by race. Nearly 50% of all loans to African American borrowers in these income brackets were high cost loans. In fact, borrowers in this ethnic group were 2.23 times more likely to receive a high cost loan than whites with similar incomes. It seems illogical, even unconscionable, that those least able to afford it are forced into perpetual debt and victimization.

Banker members of The Commission provided insight into the industry's decision-making processes and the group's understanding of the impact of banks on neighborhood development. We looked at results from a Pew Charitable Trusts' analysis of data from the Kentucky Office of Financial Institutions, the Federal Deposit Insurance Corporation, infoUSA, and the U.S. Census Bureau. As shown in Tables 1-3 below, the analysis yielded a profile of basic financial services infrastructure of Lexington-Fayette Urban County. As is clear from Table 1, a considerable number of households in Lexington-Fayette Urban County do not have checking or savings accounts, and do not use the services of banks for financial transactions.

Table 1. Bank On Profile: Lexington-Fayette Urban County
Basic Financial Services Infrastructure (estimates)

Number of unbanked households	8,300
Number of bank and credit union branches	124
Number of non-bank check cashers	16
Number of pawnshops	10
Number of non-bank payday lenders	31

Table 2 below shows that the lower the family income, the more likely is the presence of alternative financial service providers in the community.

Table 2. Distribution of Financial Services Branches, by Neighborhood Income

Income Level	Banks and Credit Unions	Alternative Financial Service Providers
Low	25.0%	50.0%
Lower middle	23.4%	27.5%
Higher middle	32.3%	20.0%
High	19.4%	2.5%

Table 3 shows that neighborhoods with high-income residents are more likely to be the location for banks and credit unions, and that alternative financial services providers are more likely to locate in low-income neighborhoods.

Table 3. Proportion of Neighborhoods Containing a Financial Services Branch, by Neighborhood Income

Income Level	Bank or Credit Union	Alternative Financial Service Provider
Low	47%	53%
Lower middle	56%	25%
Higher middle	69%	25%
High	60%	10%
County	58%	31%

It seems apparent from the data in Tables 1-3 that check cashers and predatory lenders are more likely to establish themselves in low-to-moderate-income neighborhoods, where the potential customers are least able to afford their services but are the most susceptible to using them. If more counseling were available to low- and moderate-income families, there may be a greater likelihood that they could make their money work harder for them. The more money they lose to predatory lenders, the less they have to advance the family. The value of counseling services to the broader public, particularly in low and moderate-income neighborhoods cannot be overestimated.

Adequacy and Accessibility of Financial Literacy Programs

While the need for improved services is clear, counseling agencies have limited capacity to make connections between clients and financial institutions. This problem often is exacerbated by the location of banks and lending institutions—they are not as prevalent in low-income neighborhoods. Moreover, there exists a considerable gap in the level of lending activity between banks and mortgage companies as evidenced by the smaller size loans granted by banks. This compounds the challenge in preparing families through financial literacy programs. Furthermore, The Commission notes here that, because of insufficient funds to deliver adequate services, counseling agencies are compelled to seek external resources in order to counsel people within the community.

Despite the need and value of counseling to potential borrowers, particularly those in the low and moderate-income brackets, clearly not everyone who needs it is being served. Moreover, as The Commission discussed, there are impediments that inhibit maximum effectiveness of the services that are being provided.

Examining the impediments to counseling was important in order for The Commission to develop recommendations for potential redress that would expose, if not stop the predators. We identified the need for financial literacy programs that would encourage ethical lenders and offer ways to connect them with potential buyers. This would require vision regarding the cycle of lending and counseling, delivered by a pithy "message" campaign or logo. This is especially important as the need for counseling now includes a growing number of borrowers who are seeking to refinance. Finally, The Commission notes the need to change the perception on the part of people who think that they don't need counseling, particularly moderate and upper-income earners.

Recommendations

It is a commonly known fact that if it's everyone job to police unfair lending practices, then it's no one's job, because under such circumstances, responsibility and accountability are not assigned to anyone. The Commission finds the unfair practices very serious and prevalent. Moreover, they are likely to continue in the absence of the kind of focused attention that a responsible agency would bring. Thus The Commissions recommends that the Mayor:

- **Create an oversight agency (or appoint an existing one to the role) to mount an anti-predatory lending campaign.**

- **Identify a single point contact (or appoint a Housing Commissioner for housing), who would serve on a daily, full-time basis.** The Housing Commissioner could have the responsibility of overseeing development and implementation of an anti-predatory lending campaign.

  The estimated cost to establish a Housing Commissioner would involve at a minimum salary plus benefits for the position, which we place in the range of $130-140,000 annually. If a new Office of the Commission on Housing is to be created, then space, overhead, operating expenses and support and other staff would increase the cost. If a Housing Commissioner is associated with an existing office or agency, then a cost savings would occur.

It is not without cost that the City of Lexington will tackle the unconscionable mortgage lending and related disparities so prevalent and so vicious to those least able to abide them. The Commission's initial thoughts on the following recommendations are linked to the two mentioned above:

- **Create a fund from the general fund contributions and other sources, to be used for counseling to clients at any income level.** The Commission estimates that approximately $40,000 would be needed from the General Fund.

- **Explore the possibility of selling HOME (G26) mortgage loans.**

- **Explore creating alternatives to payday lending.**

The Commission submits that most people find it difficult and too complex or time consuming to access and navigate the available information on mortgage borrowing and lending on their own. Moreover, deciphering the financial lingo can pose a threat to the average potential borrower. These impediments are compounded by the threat of social stigma that embarrasses some borrowers who don't want to appear unschooled in such basic and necessary processes. In any case, a strong literacy campaign mounted out of or sponsored by the Mayor's Office would have a significant impact on efforts to deliver needed counseling to the populace. The Commission urges the Mayor to:

- **Resurrect the "Don't Borrow Trouble" work group.** The Commission estimates a projected cost of about $3,500 to Resurrect the "Don't Borrow Trouble" working group.

- **Provide training classes for realtors so that they can be more effective for their clients.**
  The Commission foresees nominal expense associated with this recommendation if such classes constitute part of a counseling and training program already provided.

- **Make strategic and effective use of the web to disseminate Information, including FAQ lists, hot-line and real time chat opportunities with an agent.**
  This activity could become a strategic part of the web sites of existing agencies. It could also become part of the work of a Housing Commissioner and his/her office.

- **Link banks with counseling programs by creating an incentive for people to complete the counseling program.** (See above)

- **Create a Youth Financial Education Program**
  The cost of designing and implementing a financial education program for youth would depend on whether the program is lodged in an existing agency, whether it becomes part of the work of a Housing Commissioner, or whether it is treated as a stand-along program.

In order for the above-mentioned efforts to be maximally effective, the onus for success must not be solely on the potential borrowers. There is an important part for lending institutions to play, but like borrowers, they may not do this without incentive. Thus, The Commission recommends that the Mayor's appointed agency or single point contact:

- **Create a "Good Lender" rating scale and score card for lenders, which borrowers can have in their arsenal to help inform and protect themselves from predatory lending.**
  A "Good Lender" program and educational campaign may cost up to $54,000.

- **Demand <u>full</u> transparency of lenders.**
  The "Good Lender" campaign, as well as an effective counseling, would rely on full transparency by lenders regarding their offerings, fees, and requirements of potential borrowers. Without such transparency, then Lexington-Fayette Urban County may inadvertently merely perpetuate the very unethical practices that plague our citizens, especially who can least afford to be victimized.

Respectfully Submitted,

Mayor's Commission On Mortgage Lending Practices Roster

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